

BAD AXE PUBLIC SCHOOLS
BAD AXE, MICHIGAN
FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 27, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Bad Axe Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bad Axe Public Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bad Axe Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bad Axe Public Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 27, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II – VII and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bad Axe Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Bad Axe Public Schools, a K-12 school District located in Huron County, Michigan, is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Bad Axe Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

District Wide Financial Statements: (Continued)

These two statements report the Bad Axe Public Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets	\$10,764,390	\$4,677,303
Non-Current Assets	<u>9,962,570</u>	<u>10,190,435</u>
<u>TOTAL ASSETS</u>	<u>\$20,726,960</u>	<u>\$14,867,738</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,580,757	\$1,388,752
Long-Term Liabilities	<u>14,739,546</u>	<u>8,112,253</u>
Total Liabilities	\$16,320,303	\$9,501,005
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,971,290	2,013,185
Restricted - Debt Service	351,197	245,425
Unrestricted	<u>2,084,170</u>	<u>3,108,123</u>
Total Net Assets	<u>\$4,406,657</u>	<u>\$5,366,733</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$20,726,960</u>	<u>\$14,867,738</u>

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,284,554	\$1,246,953
Property Taxes Levied for Debt Service	703,160	676,289
State of Michigan Unrestricted Foundation Aid	7,406,615	7,809,232
Other General Revenues	<u>113,064</u>	<u>67,510</u>
Total General Revenues	\$9,507,393	\$9,799,984
<u>Operating Grants:</u>		
Federal	587,982	633,694
State of Michigan	515,472	513,914
Other Operating Grants	<u>370,282</u>	<u>295,001</u>
Total Operating Grants	\$1,473,736	\$1,442,609
<u>Charges for Services:</u>		
Food Service	239,882	233,249
Athletics	162,422	143,205
Other Charges for Services	<u>74,121</u>	<u>108,290</u>
Total Charges for Services	\$476,425	\$484,744
Total Revenues	\$11,457,554	\$11,727,337
<u>EXPENSES</u>		
Instruction & Instructional Support	7,248,930	6,866,688
Support Services	3,627,945	3,406,432
Community Services	23,548	17,159
Food Service	519,241	505,169
Athletics	408,108	385,487
Interest on Long-Term Debt	303,877	345,033
Depreciation	<u>285,981</u>	<u>263,797</u>
Total Expenses	\$12,417,630	\$11,789,765
<u>(DECREASE) IN NET ASSETS</u>	(\$960,076)	(\$62,428)
<u>BEGINNING NET ASSETS</u>	<u>5,366,733</u>	<u>5,429,161</u>
<u>ENDING NET ASSETS</u>	<u><u>\$4,406,657</u></u>	<u><u>\$5,366,733</u></u>

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets decreased by \$960,076 to a total of \$4,406,657. This represents a 18% decrease over the prior year. The largest portion of the net assets are the districts investment in capital assets – net of related debt. These assets decreased by \$41,895 for the year as depreciation exceeded new purchases, issuance of bonds and payments of debt. The districts Unrestricted Net Assets decreased by \$1,023,953 during the year and the restricted portion of the net assets increased by \$105,772, due to the issuance of building and site bonds. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$960,076. Total revenues decreased by \$269,783 or 2% over last years amounts. The major change was decreases in state aid. Expenses increased during the year by \$627,865 or 5% over last years amounts. Major changes were teacher buy outs, increases in depreciation, and increases in salaries and fringe benefits.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$1,022,726 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year decreased by \$324,208, primarily from a reduction in state aid due to decreases in the number of students. Expenditures and other financing uses for the year increased by \$589,158, primarily due to teacher buy outs and increases in salaries and fringe benefits. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)
The State of Michigan aid, unrestricted, is determined with the following variables:
 - a. State of Michigan State Aid Act per student foundation allowance
 - b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
 - c. The District's non-homestead levy
2. Per Student, Foundation Allowance:
Annually, the State of Michigan establishes the per student foundation allowance. The Bad Axe Public Schools foundation allowance was \$6,700 per student for the 2004-2005 school year.
3. Student Enrollment:
The District's student enrollment for the fall count of 2004-2005 was 1,324 students. A decrease of 27 students from the prior year.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$1,282,483. An increase of \$35,530 from the prior year.

Capital Projects Fund

The district's Capital Projects fund balance increased by \$6,870,970 due to the issuance of school building and site bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final <u>Budget %</u>
Revenue	\$10,008,592	\$10,059,196	\$10,068,920	0.10	0.10
Expenditures	10,813,532	11,090,121	11,091,616	0.01	(0.01)
<u>TOTAL</u>	<u>(\$804,940)</u>	<u>(\$1,030,925)</u>	<u>(\$1,022,696)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Bad Axe Public Schools amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year. There was a variation between the original and final budget. The original budget was prepared before the passage of the Michigan State Aid Act and therefore had lower revenue estimates.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
Durant Bonds	\$52,250	\$0	\$0	\$52,250
Bonds Payable	8,125,000	6,985,000	300,000	14,810,000
Compensated Absences	235,003	1,252	0	236,255
<u>Total Long-Term Bond Obligations</u>	<u>\$8,412,253</u>	<u>\$6,986,252</u>	<u>\$300,000</u>	<u>\$15,098,505</u>

Bad Axe Public Schools issued School Building and Site Bonds dated June 28, 2005, in the amount of \$6,985,000, bearing interest at rates varying from 3.00% to 4.50% per annum. These bonds will be used for school building and site purposes.

B. Capital Assets

The district's net investment in capital assets decreased by \$227,865 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$16,132,188	\$166,655	(\$96,788)	\$16,202,055
Less: Accumulated Depreciation	(5,941,753)	(394,520)	96,788	(6,239,485)
<u>Net Investment Capital Outlay</u>	<u>\$10,190,435</u>	<u>(\$227,865)</u>	<u>\$0</u>	<u>\$9,962,570</u>

Significant additions were the purchase of a bus and repaving a parking lot.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Bad Axe Public Schools.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$2,044,289	\$3,077,194
Investments	6,811,553	5,170
Accounts Receivable	26,836	41,111
Taxes Receivable	1,794	0
Due from Student Groups	17,858	13,992
Due from Other Governmental Units	1,857,050	1,533,661
Inventory	5,010	6,175
Total Current Assets	<u>\$10,764,390</u>	<u>\$4,677,303</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	16,202,055	16,132,188
Less: Accumulated Depreciation	<u>(6,239,485)</u>	<u>(5,941,753)</u>
Total Noncurrent Assets	<u>\$9,962,570</u>	<u>\$10,190,435</u>
<u>TOTAL ASSETS</u>	<u>\$20,726,960</u>	<u>\$14,867,738</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$94,540	85,457
Accrued Expenses	345,950	313,602
Salaries Payable	746,744	649,422
Deferred Revenue	34,564	40,271
Current Portion of Long-Term Obligations	<u>358,959</u>	<u>300,000</u>
Total Current Liabilities	<u>\$1,580,757</u>	<u>\$1,388,752</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>14,739,546</u>	<u>8,112,253</u>
<u>TOTAL LIABILITIES</u>	<u>\$16,320,303</u>	<u>\$9,501,005</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	1,971,290	2,013,185
Restricted for:		
Debt Retirement	351,197	245,425
Unrestricted	<u>2,084,170</u>	<u>3,108,123</u>
<u>TOTAL NET ASSETS</u>	<u>\$4,406,657</u>	<u>\$5,366,733</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$20,726,960</u>	<u>\$14,867,738</u>

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$7,248,930	\$35,802	\$1,157,745	Revenue &
Support Services	3,627,945	38,319	46,735	Change in
Community Services	23,548	0	0	Net Assets
Food Service	519,241	239,882	269,256	
Athletics	408,108	162,422	0	
Interest - Long-Term Obligations	303,877	0	0	
Depreciation - Unallocated	285,981	0	0	
<u>TOTALS</u>	<u>\$12,417,630</u>	<u>\$476,425</u>	<u>\$1,473,736</u>	<u>(\$10,467,469)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,987,714
State Aid				1,923,242
Investment Earnings				7,406,615
Miscellaneous				48,520
Total General Revenues and Transfers				32,255
Change in Net Assets				64,544
Net Assets - Beginning				<u>\$9,507,393</u>
Net Assets - Ending				<u>(\$960,076)</u>
				<u>5,366,733</u>
				<u>5,429,161</u>
				<u>\$4,406,657</u>
				<u>\$5,366,733</u>

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	2005	Other	Total
	Fund	Capital Projects	Governmental	Governmental
<u>ASSETS</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Cash and Cash Equivalents	\$1,456,040	\$103,447	\$484,802	\$2,044,289
Investments	5,263	6,806,290	0	6,811,553
Accounts Receivable	26,465	0	371	26,836
Taxes Receivable	1,368	0	426	1,794
Due from Other Funds	52,177	0	0	52,177
Due from Other Governmental Units	1,852,287	0	4,763	1,857,050
Inventory	0	0	5,010	5,010
<u>TOTAL ASSETS</u>	<u>\$3,393,600</u>	<u>\$6,909,737</u>	<u>\$495,372</u>	<u>\$10,798,709</u>
<u>LIABILITIES</u>				
Accounts Payable	\$55,725	\$38,767	\$48	\$94,540
Due to Other Funds	0	0	34,319	34,319
Accrued Expenses	289,460	0	6,981	296,441
Salaries Payable	746,399	0	345	746,744
Deferred Revenue	560	0	34,004	34,564
Total Liabilities	\$1,092,144	\$38,767	\$75,697	\$1,206,608
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	0	0	5,010	5,010
Debt Retirement	0	0	351,197	351,197
Capital Projects	0	6,870,970	0	6,870,970
Unreserved:				
Undesignated, Reported In:				
General Fund	2,301,456	0	0	2,301,456
School Service Funds	0	0	63,468	63,468
Total Fund Balances	\$2,301,456	\$6,870,970	\$419,675	\$9,592,101
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,393,600</u>	<u>\$6,909,737</u>	<u>\$495,372</u>	<u>\$10,798,709</u>

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:		\$9,592,101
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$16,202,055 and the accumulated depreciation is \$6,239,485		9,962,570
Accrued Interest on Long-Term Debt		(49,509)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$14,862,250	
Compensated Absences Payable	236,255	
Total Long-Term Liabilities		<u>(15,098,505)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$4,406,657</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	2005	Other	Total
	Fund	Capital Projects	Governmental	Governmental
	Fund	Fund	Funds	Funds
<u>REVENUES</u>				
Local Sources	\$1,436,942	\$596	\$1,118,812	\$2,556,350
State Sources	7,891,299	0	30,788	7,922,087
Federal Sources	349,514	0	238,468	587,982
Total Revenues	\$9,677,755	\$596	\$1,388,068	\$11,066,419
<u>EXPENDITURES</u>				
Current:				
Instruction	7,248,930	0	0	7,248,930
Student Services	335,021	0	0	335,021
Instructional Support	415,615	0	0	415,615
General Administration	404,025	0	0	404,025
School Administration	746,441	0	0	746,441
Operation & Maintenance of Plant	1,108,066	0	0	1,108,066
Transportation	528,079	0	0	528,079
Community Services	23,548	0	0	23,548
Food Service	0	0	900,601	900,601
Debt Service	0	0	604,877	604,877
Capital Outlay				
Other Fees	0	114,626	0	114,626
Total Expenditures	\$10,809,725	\$114,626	\$1,505,478	\$12,429,829
Excess (Deficiency) of Revenues (Under) Expenditures	(\$1,131,970)	(\$114,030)	(\$117,410)	(\$1,363,410)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(222,207)	0	222,207	0
Proceeds from Sale of Bonds	0	6,985,000	0	6,985,000
Other Transfers	331,451	0	0	331,451
Total Other Financing Sources (Uses)	\$109,244	\$6,985,000	\$222,207	\$7,316,451
Net Change in Fund Balance	(\$1,022,726)	\$6,870,970	\$104,797	\$5,953,041
<u>FUND BALANCE - BEGINNING</u>	3,324,182	0	314,878	3,639,060
<u>FUND BALANCE - ENDING</u>	\$2,301,456	\$6,870,970	\$419,675	\$9,592,101

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total net change in fund balances - governmental funds	\$5,953,041
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation in the current period exceeded capital outlay.	(227,865)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	300,000
Issuance of Bonds reports as revenue in the governmental fund, but the issuance increases long-term liabilities in the statement of net assets. This is the amount of proceeds reported as revenue in the governmental funds.	(6,985,000)
(Increase) in Compensated Absences	(1,252)
Change in accrued interest on long-term liabilities	<u>1,000</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$960,076)</u></u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$108,950	\$297,831	\$406,781
Investments	0	41,513	41,513
Total Assets	<u>\$108,950</u>	<u>\$339,344</u>	<u>\$448,294</u>
<u>LIABILITIES</u>			
Due to Other Funds	17,858	0	17,858
Due to Student Groups	91,092	0	91,092
Total Liabilities	<u>\$108,950</u>	<u>\$0</u>	<u>\$108,950</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$339,344</u>	<u>\$339,344</u>

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$8,999
Donations	6,895
Total Revenue	<u>\$15,894</u>
<u>EXPENDITURES</u>	
Scholarships	<u>28,400</u>
<u>CHANGE IN NET ASSETS</u>	(\$12,506)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>351,850</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$339,344</u></u>

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bad Axe Public Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are value at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are value at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles generally requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the District for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

Budgets were not adopted for the capital projects fund for the year ended June 30, 2005.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
U.S. Agency Discount Notes	\$ 696,600	0.1420	AAA	10.16%
U.S. Agency Notes and Bonds	6,109,690	0.9590	AAA	89.15%
Investment Pools - Mutual Funds	41,513	3.4482		0.61%
MILAF External Investment Pool - MICMS	1,790	0.0027	AAAm	0.03%
MILAF External Investment Pool - MIMAX	3,473	0.0027	AAAm	0.05%
Total fair value	<u>\$ 6,853,066</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.8903</u>		

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in U.S. Treasuries which represents 99% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$1,989,050 of the District's bank balance of \$2,751,679 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the investment in investment pools – mutual funds of \$41,513 the District has a custodial credit risk exposure of \$41,513 because the related securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these particular securities.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$406,781	\$ 2,451,070
Investments	<u>6,853,066</u>
<u>TOTAL</u>	<u>\$ 9,304,136</u>

The above amounts are reported in the financial statements as follows:

Cash Private Purpose Trust Fund	\$ 297,831
Cash Agency Fund	108,950
Cash – District Wide	2,044,289
Investments – Private Purpose Trust Fund	41,513
Investments – District Wide	<u>6,811,553</u>
<u>TOTAL</u>	<u>\$ 9,304,136</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

6) RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,435,737
Federal Grants	28,495
Other Grants	392,818
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,857,050</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had \$2,455 in estimated claims in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$13,279,671	\$10,604	\$0	\$13,290,275
Land Improvements	1,233,698	26,315	0	1,260,013
Equipment and Furniture	455,410	54,374	0	509,784
Vehicles	1,163,409	75,362	(96,788)	1,141,983
Totals at Historical Cost	\$16,132,188	\$166,655	(96,788)	\$16,202,055
Less: Accumulated Depreciation				
Buildings and Improvements	(4,267,479)	(280,744)	0	(4,548,223)
Land Improvements	(331,791)	(30,605)	0	(362,396)
Equipment and Furniture	(298,556)	(35,153)	0	(333,709)
Vehicles	(1,043,927)	(48,018)	96,788	(995,157)
Total Accumulated Depreciation	<u>(\$5,941,753)</u>	<u>(\$394,520)</u>	<u>\$96,788</u>	<u>(\$6,239,485)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$10,190,435</u>	<u>(\$227,865)</u>	<u>\$0</u>	<u>\$9,962,570</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 81,791
Food Service	3,429
Athletics	23,319
Unallocated	285,981
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 394,520</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$133,032 and the School District received a dividend refund of \$40,195.

11) LONG-TERM LIABILITIES

A) Prior Period Defeasance

On May 1, 2003, the District defeased certain obligation bonds by placing the proceeds of the new general obligation bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's government-wide financial statements. On June 30, 2005, \$7,825,000 of bonds outstanding are considered defeased.

B) 2005 School Building and Site Bonds

Bad Axe Public Schools has issued School Building and Site Bonds dated June 28, 2005, in the amount of \$6,985,000, bearing interest at rates varying from 3.00% to 4.50% per annum. These bonds will be used for school building and site purposes. The balance of the bonds as of June 30, 2005 was \$6,985,000.

C) Durant Resolution Package Bonds

Bad Axe Public Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$81,784 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$52,250. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

D) Debt service requirements at June 30, 2005, were as follows:

YEAR ENDED			
JUNE 30,	BONDS	INTEREST	TOTAL
2006	\$358,959	\$539,310	\$898,269
2007	399,146	576,909	976,055
2008	424,345	566,488	990,833
2009	439,552	553,681	993,233
2010	479,768	539,552	1,019,320
2011-2015	2,690,480	2,444,998	5,135,478
2016-2020	3,240,000	1,883,733	5,123,733
2021-2025	3,580,000	1,143,960	4,723,960
2026-2030	3,250,000	424,775	3,674,775
<u>TOTAL</u>	<u>\$14,862,250</u>	<u>\$8,673,406</u>	<u>\$23,535,656</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

11) LONG-TERM LIABILITIES (Continued)

E) Changes in Long-Term Liabilities

	BALANCE			BALANCE	AMOUNT DUE
<u>Governmental Activities:</u>	JULY 1, 2004	ADDITIONS	DEDUCTIONS	JUNE 30, 2005	IN ONE YEAR
Durant Bonds	\$52,250	\$0	\$0	\$52,250	\$3,959
Bonds Payable	8,125,000	6,985,000	300,000	14,810,000	355,000
Compensated Absences	235,003	1,252	0	236,255	0
<u>Total Governmental Activities</u>	<u>\$8,412,253</u>	<u>\$6,986,252</u>	<u>\$300,000</u>	<u>\$15,098,505</u>	<u>\$358,959</u>

The payment dates of sick days payable are undeterminable. The interest expenditures on long-term obligations for the year were \$303,053.

12) INTERFUND BALANCES

Interfund balances at June 30, 2005 consisted of the following:

DUE FROM	
DUE TO	GENERAL FUND
Special Revenue Fund	\$34,319
Trust & Agency Fund	17,858
<u>TOTAL</u>	<u>\$52,177</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	GENERAL FUND
Special Revenue Fund	\$222,207

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$950,257, \$832,608 and \$806,688, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from significant adverse financial impact.

16) GOVERNMENTAL REGULATION

Substantially all of the school district's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the school district expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the school district. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

REQUIRED
SUPPLEMENTARY
INFORMATION

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$1,327,872	\$1,561,544	\$1,436,942	(\$124,602)
State Sources	7,974,399	7,787,680	7,891,299	103,619
Federal Sources	348,021	321,189	349,514	28,325
Total Revenues	\$9,650,292	\$9,670,413	\$9,677,755	\$7,342
<u>EXPENDITURES</u>				
Current:				
Instruction	6,937,936	7,213,335	7,248,930	(35,595)
Student Services & Instructional Support	726,059	747,534	750,636	(3,102)
General Administration	562,599	412,934	404,025	8,909
School Administration	668,106	757,718	746,441	11,277
Operation & Maintenance of Plant	1,131,933	1,185,036	1,108,066	76,970
Transportation	445,857	453,654	528,079	(74,425)
Community Services	18,865	22,765	23,548	(783)
Total Expenditures	\$10,491,355	\$10,792,976	\$10,809,725	(\$16,749)
Excess of Revenues Over Expenditures	(\$841,063)	(\$1,122,563)	(\$1,131,970)	(\$9,407)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds	36,123	91,638	109,244	17,606
Net Change in Fund Balance	(\$804,940)	(\$1,030,925)	(\$1,022,726)	\$8,199
<u>FUND BALANCE - BEGINNING</u>			3,324,182	
<u>FUND BALANCE - ENDING</u>			\$2,301,456	

OTHER SUPPLEMENTAL
INFORMATION

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005

	Special Revenue Fund	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$134,031	\$350,771	\$484,802
Accounts Receivable	371	0	371
Taxes Receivable	0	426	426
Due from Other Governmental Units	4,763	0	4,763
Inventory	5,010	0	5,010
<u>TOTAL ASSETS</u>	<u>\$144,175</u>	<u>\$351,197</u>	<u>\$495,372</u>
<u>LIABILITIES</u>			
Accounts Payable	\$48	\$0	\$48
Due to Other Funds	34,319	0	34,319
Accrued Expenses	6,981	0	6,981
Salaries Payable	345	0	345
Deferred Revenue	34,004	0	34,004
Total Liabilities	\$75,697	\$0	\$75,697
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	5,010	0	5,010
Debt Retirement	0	351,197	351,197
Unreserved:			
Undesignated, Reported In:			
School Service Fund	63,468	0	63,468
Total Fund Balances	\$68,478	\$351,197	\$419,675
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$144,175</u>	<u>\$351,197</u>	<u>\$495,372</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Fund	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$408,163	\$710,649	\$1,118,812
State Sources	30,788	0	30,788
Federal Sources	238,468	0	238,468
Total Revenues	<u>\$677,419</u>	<u>\$710,649</u>	<u>\$1,388,068</u>
<u>OTHER FINANCING SOURCES</u>	<u>222,207</u>	<u>0</u>	<u>222,207</u>
Total Revenues & Other Financing Sources	\$899,626	\$710,649	\$1,610,275
<u>EXPENDITURES</u>			
Food Service	900,601	0	900,601
Debt Service			
Principal	0	300,000	300,000
Interest	0	303,053	303,053
Taxes Abated/Written Off	0	1,074	1,074
Other	0	750	750
Total Expenditures	<u>\$900,601</u>	<u>\$604,877</u>	<u>\$1,505,478</u>
Net Change in Fund Balance	(\$975)	\$105,772	\$104,797
<u>NET ASSETS - BEGINNING</u>	<u>69,453</u>	<u>245,425</u>	<u>314,878</u>
<u>NET ASSETS - ENDING</u>	<u>\$68,478</u>	<u>\$351,197</u>	<u>\$419,675</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND
AS OF JUNE 30, 2005

	Food Services Fund	Athletic Fund	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$97,957	\$36,074	\$134,031
Accounts Receivable	0	371	371
Due from Other Governmental Units	4,763	0	4,763
Inventory	5,010	0	5,010
<u>TOTAL ASSETS</u>	<u>\$107,730</u>	<u>\$36,445</u>	<u>\$144,175</u>
<u>LIABILITIES</u>			
Accounts Payable	\$0	\$48	\$48
Due to Other Funds	27,926	6,393	34,319
Accrued Expenses	5,638	1,343	6,981
Salaries Payable	345	0	345
Deferred Revenue	5,343	28,661	34,004
Total Liabilities	\$39,252	\$36,445	\$75,697
<u>FUND BALANCES</u>			
Fund Balance - Reserved for Inventory	5,010	0	5,010
Fund Balance - Unreserved and Undesignated	63,468	0	63,468
Total Fund Balance	\$68,478	\$0	\$68,478
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$107,730</u>	<u>\$36,445</u>	<u>\$144,175</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Food Services Fund	Athletic Fund	Total
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$239,882	\$0	\$239,882
Athletic Activities	0	162,422	162,422
Earnings on Investments and Deposits	390	160	550
Other Local Revenues	5,309	0	5,309
Total Local Sources	<u>\$245,581</u>	<u>\$162,582</u>	<u>\$408,163</u>
<u>State Sources</u>			
State Reimbursements	30,788	0	30,788
<u>Federal Sources</u>			
Federal Reimbursements	199,181	0	199,181
Commodities	39,287	0	39,287
Total Federal Sources	<u>\$238,468</u>	<u>\$0</u>	<u>\$238,468</u>
Total Revenues	<u>\$514,837</u>	<u>\$162,582</u>	<u>\$677,419</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	222,207	222,207
Total Revenues & Other Financing Sources	<u>\$514,837</u>	<u>\$384,789</u>	<u>\$899,626</u>
<u>EXPENDITURES</u>			
Salaries - Professional	0	187,944	187,944
Salaries - Non-Professional	142,437	0	142,437
Insurances	57,549	15,060	72,609
Fica, Retirement, Etc.	32,191	34,113	66,304
Purchased Services	37,564	495	38,059
Supplies and Materials	239,821	147,177	386,998
Capital Outlay	1,355	0	1,355
Other	4,895	0	4,895
Total Expenditures	<u>\$515,812</u>	<u>\$384,789</u>	<u>\$900,601</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	(\$975)	\$0	(\$975)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>69,453</u>	<u>0</u>	<u>69,453</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$68,478</u>	<u>\$0</u>	<u>\$68,478</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>REVENUES FROM</u>		
<u>Local Sources</u>		
Property Taxes	\$1,284,554	\$1,246,953
Earnings on Investments and Deposits	41,015	27,703
Other Local Revenues	111,373	140,347
Total Revenues from Local Sources	<u>\$1,436,942</u>	<u>\$1,415,003</u>
<u>State Sources</u>		
State Aid - Membership - Sec. 20	7,406,615	7,809,232
At Risk	253,070	247,296
Special Education	215,129	207,764
Advanced & Acc Learning	185	198
Driver Education	3,153	8,839
Career Development Grant	0	2,035
Vocational Education	3,665	3,059
Durant	8,178	8,178
MI Intergr. Learning	4,748	0
Court Placed	(3,444)	3,444
Total Revenues from State Sources	<u>\$7,891,299</u>	<u>\$8,290,045</u>
<u>Federal Sources</u>		
Title I	227,336	254,830
Title I Carryover	0	34,523
School Health	1,000	0
Technology Literacy Challenge	5,778	6,171
Title V	3,971	4,496
Improving Teacher Quality	76,868	82,611
Grants from ISD	34,561	14,450
Total Revenues from Federal Sources	<u>\$349,514</u>	<u>\$397,081</u>
Total Revenues	<u>\$9,677,755</u>	<u>\$10,102,129</u>
<u>OTHER FINANCING SOURCES</u>		
County Special Education Tax	331,725	285,882
Transfers from Other Governmental Units	37,241	0
Sale of School Property	22,169	5,087
Total Other Financing Sources	<u>\$391,135</u>	<u>\$290,969</u>
<u>TOTAL REVENUES AND OTHER</u> <u>FINANCING SOURCES</u>	<u><u>\$10,068,890</u></u>	<u><u>\$10,393,098</u></u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

<u>INSTRUCTION</u>	<u>2005</u>	<u>2004</u>
<u>BASIC PROGRAMS</u>		
<u>Elementary</u>		
Salaries - Professional	\$710,584	\$653,778
Salaries - Non-Professional	102,550	72,457
Insurances	206,122	159,447
Fica, Retirement, Etc.	173,352	149,129
Purchased Services	11,592	9,801
Supplies and Materials	75,937	49,548
Capital Outlay	6,195	7,274
Total Elementary	<u>\$1,286,332</u>	<u>\$1,101,434</u>
<u>Intermediate</u>		
Salaries - Professional	1,068,759	931,745
Salaries - Non-Professional	31,809	45,318
Insurances	169,784	153,927
Fica, Retirement, Etc.	222,422	196,711
Purchased Services	11,142	11,452
Supplies and Materials	62,351	28,203
Capital Outlay	11,481	94,705
Total Intermediate	<u>\$1,577,748</u>	<u>\$1,462,061</u>
<u>Junior High</u>		
Salaries - Professional	858,210	840,224
Salaries - Non-Professional	39,859	41,533
Insurances	191,385	163,385
Fica, Retirement, Etc.	197,598	182,446
Purchased Services	13,446	9,551
Supplies and Materials	31,099	56,807
Capital Outlay	41,721	20,241
Total Junior High	<u>\$1,373,318</u>	<u>\$1,314,187</u>
<u>High School</u>		
Salaries - Professional	1,069,356	1,058,481
Salaries - Non-Professional	33,080	41,454
Insurances	230,756	221,129
Fica, Retirement, Etc.	243,576	225,734
Purchased Services	24,638	27,542
Supplies and Materials	59,078	86,048
Capital Outlay	5,765	39,382
Total High School	<u>\$1,666,249</u>	<u>\$1,699,770</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>INSTRUCTION</u> (Continued)		
<u>BASIC PROGRAMS</u> (Continued)		
<u>Drivers Education - HS</u>		
Salaries - Professional	\$2,293	\$13,035
Salaries - Non-Professional	150	150
Fica, Retirement, Etc.	527	2,807
Purchased Services	515	1,090
Supplies and Materials	51	707
Total Drivers Education - HS	<u>\$3,536</u>	<u>\$17,789</u>
 Total Basic Programs	 \$5,907,183	 \$5,595,241
 <u>ADDED NEEDS</u>		
<u>SPECIAL EDUCATION</u>		
Salaries - Professional	452,308	422,835
Salaries - Non-Professional	29,185	32,577
Insurances	103,111	88,245
Fica, Retirement, Etc.	108,596	94,423
Purchased Services	416	50
Supplies and Materials	3,356	6,132
Capital Outlay	0	2,482
Total Special Education	<u>\$696,972</u>	<u>\$646,744</u>
 <u>COMPENSATORY EDUCATION</u>		
Salaries - Professional	396,189	368,064
Insurances	54,108	59,821
Fica, Retirement, Etc.	89,518	75,680
Purchased Services	16,670	28,310
Supplies and Materials	10,556	1,084
Other	0	3,690
Total Compensatory Education	<u>\$567,041</u>	<u>\$536,649</u>
 <u>VOCATIONAL EDUCATION</u>		
Salaries - Professional	35,962	52,243
Salaries - Non-Professional	20	1,176
Insurances	12,824	20,434
Fica, Retirement, Etc.	8,044	10,987
Purchased Services	7,756	0
Supplies and Materials	12,085	2,244
Capital Outlay	1,043	0
Other	0	970
Total Vocational Education	<u>\$77,734</u>	<u>\$88,054</u>
 Total Added Needs	 <u>\$1,341,747</u>	 <u>\$1,271,447</u>
 <u>Total Instruction</u>	 <u>\$7,248,930</u>	 <u>\$6,866,688</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>SUPPORT SERVICES</u>		
<u>STUDENT SERVICES</u>		
<u>Guidance</u>		
Salaries - Professional	\$192,800	\$164,472
Salaries - Non-Professional	16,445	15,711
Insurances	29,061	23,510
Fica, Retirement, Etc.	48,224	36,540
Purchased Services	1,297	697
Supplies and Materials	1,199	1,396
Total Guidance	<u>\$289,026</u>	<u>\$242,326</u>
<u>Medical Service</u>		
Salaries - Professional	35,670	35,471
Insurances	289	624
Fica, Retirement, Etc.	7,984	7,335
Purchased Services	0	65
Supplies and Materials	2,052	2,240
Total Medical Service	<u>\$45,995</u>	<u>\$45,735</u>
Total Student Services	\$335,021	\$288,061
<u>INSTRUCTIONAL STAFF</u>		
<u>Library</u>		
Salaries - Professional	152,146	145,873
Insurances	29,897	25,114
Fica, Retirement, Etc.	33,663	29,797
Purchased Services	36	79
Supplies and Materials	24,484	25,491
Total Library	<u>\$240,226</u>	<u>\$226,354</u>
<u>Other Instructional Staff</u>		
Salaries - Non-Professional	83,226	63,778
Insurances	25,273	18,800
Fica, Retirement, Etc.	18,584	13,188
Purchased Services	48,198	43,420
Supplies and Materials	108	881
Total Other Instructional Staff	<u>\$175,389</u>	<u>\$140,067</u>
Total Instructional Staff	\$415,615	\$366,421
<u>GENERAL ADMINISTRATION</u>		
<u>Board of Education</u>		
Salaries - Professional	3,200	3,215
Purchased Services	11,675	9,279
Total Board of Education	<u>\$14,875</u>	<u>\$12,494</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>SUPPORT SERVICES (Continued)</u>		
<u>General Administration (Continued)</u>		
<u>Executive Administration</u>		
Salaries - Professional	\$175,873	\$187,395
Salaries - Non-Professional	56,737	83,757
Insurances	44,305	44,403
Fica, Retirement, Etc.	48,287	53,005
Purchased Services	39,253	41,079
Supplies and Materials	15,118	21,565
Capital Outlay	1,146	5,518
Other	8,431	11,625
Total Executive Administration	<u>\$389,150</u>	<u>\$448,347</u>
Total General Administration	\$404,025	\$460,841
<u>SCHOOL ADMINISTRATION</u>		
Salaries - Professional	341,046	310,219
Salaries - Non-Professional	157,352	111,248
Insurances	112,386	92,809
Fica, Retirement, Etc.	108,313	83,398
Purchased Services	19,197	25,883
Supplies and Materials	3,589	5,655
Other	4,558	4,710
Total School Administration	<u>\$746,441</u>	<u>\$633,922</u>
<u>OPERATION AND MAINTENANCE OF PLANT</u>		
Salaries - Professional	45,437	44,634
Salaries - Non-Professional	313,410	307,933
Insurances	149,867	129,935
Fica, Retirement, Etc.	80,231	74,009
Purchased Services	187,160	176,250
Supplies and Materials	253,637	245,175
Capital Outlay	78,324	132,871
Total Operation and Maintenance of Plant	<u>\$1,108,066</u>	<u>\$1,110,807</u>
<u>TRANSPORTATION</u>		
Salaries - Non-Professional	204,416	201,564
Insurances	120,594	122,973
Fica, Retirement, Etc.	45,827	42,273
Purchased Services	11,809	17,159
Supplies and Materials	69,845	52,232
Capital Outlay	75,362	28,181
Other	226	209
Total Transportation	<u>\$528,079</u>	<u>\$464,591</u>
Total Support Services	\$3,537,247	\$3,324,643

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGANGENERAL FUNDSCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>COMMUNITY SERVICES</u>		
Salaries - Professional	\$17,492	\$8,974
Salaries - Non-Professional	0	3,664
Insurances	306	521
Fica, Retirement, Etc.	3,924	2,613
Purchased Services	320	0
Supplies and Materials	1,506	1,387
Total Community Services	<u>\$23,548</u>	<u>\$17,159</u>
Total Expenditures	\$10,809,725	\$10,208,490
<u>OTHER FINANCING USES</u>		
Transfers to Other Funds	222,207	218,802
Transfers to Other Districts	38,210	53,609
Taxes Abated/Written Off	21,474	21,557
Total Other Financing Uses	<u>\$281,891</u>	<u>\$293,968</u>
<u>TOTAL EXPENDITURES AND OTHER</u> <u>FINANCING USES</u>	<u>\$11,091,616</u>	<u>\$10,502,458</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
<u>HIGH SCHOOL</u>				
Academic Track	\$934	\$0	\$0	\$934
Annual	(2,686)	14,980	16,036	(3,742)
AP Government	(81)	11,378	11,297	0
Art Club	902	0	0	902
Awards Accounts	(73)	268	195	0
Band	72	4,712	4,784	0
Band Uniforms	(294)	294	0	0
Book Deposits	7,662	1,047	2,803	5,906
Candy Machine	5,832	0	5,832	0
Cheerleading Uniforms	1,542	0	0	1,542
Class of 2000	1,446	0	0	1,446
Class of 2001	712	0	0	712
Class of 2002	661	0	0	661
Class of 2003	131	0	0	131
Class of 2004	3,538	0	1,540	1,998
Class of 2005	2,732	11,690	13,295	1,127
Class of 2006	1,695	8,465	8,874	1,286
Class of 2007	2,762	5,121	3,909	3,974
Class of 2008	1,842	390	1,243	989
Class of 2009	2,915	39,276	38,997	3,194
Class of 2010	0	8,108	4,160	3,948
Community Asst	566	1,511	2,076	1
Computer Club	643	0	0	643
FFA	2,274	0	0	2,274
Forensics	(732)	2,279	1,547	0
French Club	1,045	0	0	1,045
Hatchet Action Video	(69)	69	0	0
Hatchet Fitness Club	46	50	0	96
Hatchet Hardware	267	0	0	267
INK. Inc.	4	0	0	4
Library Club	3	0	0	3
Lounge	2,249	1,448	1,587	2,110
Music Club	1,509	1,955	2,603	861
Musical	10,436	7,768	7,644	10,560
National Honor Society	1,359	786	881	1,264
Program Supplement	6,272	27,946	25,924	8,294
Quest	35	0	0	35
Quiz Bowl	130	2,253	2,293	90
SADD Chapter	261	0	0	261
Science Club	(230)	443	0	213
Spanish Club	2,434	2,663	2,865	2,232
Speech Club	323	0	0	323
Student Council	1,832	7,476	7,455	1,853
Three-Act Play	2,806	1,163	814	3,155
Yellow Ribbon	958	683	510	1,131
Total High School	\$66,665	\$164,222	\$169,164	\$61,723

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS		JUNE 30, 2005	
<u>JUNIOR HIGH</u>					
Band	(\$1,370)	\$1,370	\$0		\$0
Book Deposits	3,148	75	0		3,223
Cheerleaders	(2,510)	2,530	0		20
Citizens of the Month	(2,203)	2,421	218		0
Journalism	471	82	399		154
Lounge	(29)	1,099	1,058		12
Music Club	(374)	374	0		0
Sixth Grade Band	(23)	73	4		46
Sixth Grade Computer	689	0	0		689
Student Council	(4)	7,828	5,318		2,506
Total Junior High	(\$2,205)	\$15,852	\$6,997		\$6,650
<u>INTERMEDIATE & ELEMENTARY</u>					
Elementary & Intermediate Trip	3,267	0	0		3,267
Elem School Carnival	0	1,873	0		1,873
Equipment	5,266	7,245	7,009		5,502
Foster Grandparents	5	0	0		5
Friday Treat	1,764	1,646	796		2,614
General Music - Elementary	(9)	9	0		0
General Music - Intermediate	(88)	88	0		0
Lounge - Elementary	1,778	778	929		1,627
Lounge - Intermediate	14	1,143	1,076		81
PTSA	7,729	6,966	6,945		7,750
Total Intermediate & Elementary	\$19,726	\$19,748	\$16,755		\$22,719
<u>TOTAL</u>	\$84,186	\$199,822	\$192,916		\$91,092

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - BOARD CONTROLLED INTERNAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
<u>HIGH SCHOOL</u>				
Art Fees	(\$974)	\$1,160	\$0	\$186
Assemblies	2,505	6,976	6,963	2,518
Book Store	5,214	7,822	8,165	4,871
Shop Fees	1,007	9,291	9,064	1,234
Total High School	\$7,752	\$25,249	\$24,192	\$8,809
<u>JUNIOR HIGH</u>				
Art, Home Economics & Shop Fees	208	0	0	208
Bookstore	787	208	9	986
Calculator	393	792	729	456
Library	398	2,578	2,220	756
School Spirit	582	6,968	5,890	1,660
Total Junior High	\$2,368	\$10,546	\$8,848	\$4,066
<u>INTERMEDIATE</u>				
Bookstore	913	301	303	911
Library	25	0	0	25
Total Intermediate	\$938	\$301	\$303	\$936
<u>ELEMENTARY</u>				
Bookstore	2,785	1,698	585	3,898
Library	149	0	0	149
Total Elementary	\$2,934	\$1,698	\$585	\$4,047
<u>TOTAL</u>	<u>\$13,992</u>	<u>\$37,794</u>	<u>\$33,928</u>	<u>\$17,858</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

<hr/>		
	<u>ALLEN SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$5,010
<u>REVENUE</u>		
Interest		106
<u>EXPENDITURES</u>		
Scholarship Awards		0
<u>BALANCE - JUNE 30, 2005</u>		<u>\$5,116</u>
<hr/>		
	<u>BEACH SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$208,224
<u>REVENUE</u>		
Interest		3,650
<u>EXPENDITURES</u>		
Scholarship Awards		25,000
<u>BALANCE - JUNE 30, 2005</u>		<u>\$186,874</u>
<hr/>		
	<u>GREENE SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$39,300
<u>REVENUE</u>		
Interest		3,613
<u>EXPENDITURES</u>		
Scholarship Awards		1,400
<u>BALANCE - JUNE 30, 2005</u>		<u>\$41,513</u>
<hr/>		
	<u>GROOMBRIDGE SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$5,646
<u>REVENUE</u>		
Interest		34
Donations		495
Total Revenue		\$529
<u>BALANCE - JUNE 30, 2005</u>		<u>\$6,175</u>
<hr/>		
	<u>IGNASH SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$7,869
<u>REVENUE</u>		
Interest		167
<u>EXPENDITURES</u>		
Scholarship Awards		500
<u>BALANCE - JUNE 30, 2005</u>		<u>\$7,536</u>
<hr/>		

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

<hr/> <hr/>		
	<u>KASSERMAN SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$49,273
<u>REVENUE</u>		
Interest		609
		<hr/>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$49,882</u>
<hr/>		
	<u>MORELL SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$0
<u>REVENUE</u>		
Interest		47
Donations		6,400
Total Revenue		<hr/>
		\$6,447
<u>EXPENDITURES</u>		
Scholarship Awards		<hr/>
		0
<u>BALANCE - JUNE 30, 2005</u>		<u>\$6,447</u>
<hr/>		
	<u>PANKRATZ SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$22,418
<u>REVENUE</u>		
Interest		474
<u>EXPENDITURES</u>		
Scholarship Awards		<hr/>
		1,000
<u>BALANCE - JUNE 30, 2005</u>		<u>\$21,892</u>
<hr/>		
	<u>STEINHARDT SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>		\$14,110
<u>REVENUE</u>		
Interest		299
<u>EXPENDITURES</u>		
Scholarship Awards		<hr/>
		500
<u>BALANCE - JUNE 30, 2005</u>		<u>\$13,909</u>
<hr/>		
	<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2005</u>		<u>\$339,344</u>
<hr/> <hr/>		

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$81,784

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$3,959	4.761353%	\$1,784	\$5,743
2007	4,146	4.761353%	1,596	5,742
2008	4,345	4.761353%	1,399	5,744
2009	4,552	4.761353%	1,192	5,744
2010	4,768	4.761353%	975	5,743
2011	4,995	4.761353%	748	5,743
2012	20,003	4.761353%	7,098	27,101
2013	5,482	4.761353%	261	5,743
<u>TOTAL</u>	<u>\$52,250</u>		<u>\$15,053</u>	<u>\$67,303</u>

2003 REFUNDING BONDS

DUE DATE	INTEREST RATE	PRINCIPAL REQUIREMENT	INTEREST PAYMENTS DUE		TOTAL
			NOVEMBER 1	MAY 1	
2005-2006	2.00%	\$320,000	\$148,526	\$148,526	\$617,052
2006-2007	2.50%	325,000	145,326	145,326	615,652
2007-2008	3.00%	335,000	141,264	141,264	617,528
2008-2009	3.25%	345,000	136,239	136,239	617,478
2009-2010	3.75%	360,000	130,633	130,632	621,265
2010-2011	3.50%	370,000	124,557	124,558	619,115
2011-2012	3.50%	385,000	118,083	118,082	621,165
2012-2013	3.65%	400,000	111,345	111,345	622,690
2013-2014	3.80%	415,000	104,045	104,045	623,090
2014-2015	3.90%	430,000	96,160	96,160	622,320
2015-2016	4.00%	450,000	87,775	87,775	625,550
2016-2017	4.00%	465,000	78,775	78,775	622,550
2017-2018	4.10%	485,000	69,475	69,475	623,950
2018-2019	4.20%	505,000	59,532	59,533	624,065
2019-2020	4.25%	530,000	48,927	48,928	627,855
2020-2021	4.35%	550,000	37,665	37,665	625,330
2021-2022	4.40%	570,000	25,703	25,702	621,405
2022-2023	4.50%	585,000	13,163	13,162	611,325
<u>TOTAL</u>		<u>\$7,825,000</u>	<u>\$1,677,193</u>	<u>\$1,677,192</u>	<u>\$11,179,385</u>

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

DATE OF ISSUE - June 28, 2005

Original amount of issue - \$6,985,000

2005 SCHOOL BUILDING AND SITE BONDS

<u>DUE DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2005-2006	3.000%	\$35,000	\$0	\$240,474	\$275,474
2006-2007	3.000%	70,000	142,331	142,330	354,661
2007-2008	3.000%	85,000	141,280	141,281	367,561
2008-2009	3.000%	90,000	140,005	140,006	370,011
2009-2010	3.000%	115,000	138,656	138,656	392,312
2010-2011	3.125%	125,000	136,931	136,930	398,861
2011-2012	3.200%	125,000	134,977	134,978	394,955
2012-2013	3.300%	130,000	132,977	132,978	395,955
2013-2014	3.400%	135,000	130,833	130,832	396,665
2014-2015	3.500%	145,000	128,538	128,537	402,075
2015-2016	4.250%	145,000	126,000	126,000	397,000
2016-2017	4.250%	155,000	122,919	122,919	400,838
2017-2018	4.250%	160,000	119,625	119,625	399,250
2018-2019	4.250%	170,000	116,225	116,225	402,450
2019-2020	4.250%	175,000	112,613	112,612	400,225
2020-2021	4.250%	185,000	108,894	108,894	402,788
2021-2022	4.000%	195,000	104,963	104,962	404,925
2022-2023	4.000%	215,000	101,062	101,063	417,125
2023-2024	4.125%	630,000	96,762	96,763	823,525
2024-2025	4.125%	650,000	83,768	83,769	817,537
2025-2026	4.200%	650,000	70,363	70,362	790,725
2026-2027	4.250%	650,000	56,713	56,712	763,425
2027-2028	4.500%	650,000	42,900	42,900	735,800
2028-2029	4.350%	650,000	28,275	28,275	706,550
2029-2030	4.350%	650,000	14,137	14,138	678,275
<u>TOTAL</u>		<u>\$6,985,000</u>	<u>\$2,531,747</u>	<u>\$2,772,221</u>	<u>\$12,288,968</u>

BAD AXE PUBLIC SCHOOLS

BAD AXE, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 27, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Bad Axe Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bad Axe Public Schools, as of and for the year ended June 30, 2005, which collectively comprise the Bad Axe Public Schools' basic financial statements and have issued our report thereon dated July 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bad Axe Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bad Axe Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Bad Axe Public Schools, in a separate letter dated July 27, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 27, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Bad Axe Public Schools

Compliance

We have audited the compliance of Bad Axe Public Schools with the types of compliance requirements described in *the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Bad Axe Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Bad Axe Public Schools' management. Our responsibility is to express an opinion on Bad Axe Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bad Axe Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bad Axe Public Schools' compliance with those requirements.

In our opinion, Bad Axe Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Bad Axe Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bad Axe Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Bad Axe Public Schools

Page 2

July 27, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bad Axe Public Schools, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 27, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Bad Axe Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies	84.010		
ESEA Title I - Regular (04-05)		51530-0405	\$227,336
ESEA Title I - Regular (03-04)		41530-0304	254,830
Total ESEA Title I			<u>\$482,166</u>
Innovative Education Program Strategies	84.298		
Title V (04-05)		50250-0405	3,971
Title V (03-04)		40250-0304	4,496
Total Innovative Education Program Strategies			<u>\$8,467</u>
Technology Literacy Challenge	84.318		
Technology Literacy Challenge (04-05)		54290-0405	5,778
Technology Literacy Challenge (03-04)		44290-0304	6,171
Total Literacy Challenge			<u>\$11,949</u>
Improving Teacher Quality	84.367		
Title IIA (04-05)		50520-0405	76,868
Title IIA (03-04)		40520-0304	77,772
Total Improving Teacher Quality			<u>\$154,640</u>
Total Passed Through Michigan Department of Education			<u>\$657,222</u>
Passed Through Huron Intermediate School District:			
Special Education - Grants to States	84.027		
IDEA Handicapped Preschool & School Programs (04-05)		50450-0405	13,072
IDEA Flowthrough Raise Grant		50450-0405	5,000
IDEA Part B Literacy & Personnel Development (04-05)		50470-1D33	340
IDEA State Initiated Capacity Building (04-05)		50490-CB	686
State Initiated Competitive Transition Grant (04-05)		50490-TS	2,467
Total Passed Through Huron Intermediate School District			<u>\$21,565</u>
Passed Through Tuscola Intermediate School District:			
Safe & Drug Free Schools & Communities - State Grants	84.186		
Safe & Drug Free Grants (04-05)		52860-0405	4,021
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$682,808</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$227,336	\$0	\$227,336	\$0
36,242	254,830	0	0	36,242	0
\$36,242	\$254,830	\$227,336	\$0	\$263,578	\$0
0	0	3,971	0	2,677	1,294
4,496	4,496	0	0	4,496	0
\$4,496	\$4,496	\$3,971	\$0	\$7,173	\$1,294
0	0	5,778	0	5,559	219
1,543	6,171	0	0	1,543	0
\$1,543	\$6,171	\$5,778	\$0	\$7,102	\$219
0	0	76,868	0	69,199	7,669
13,576	77,772	0	0	13,576	0
\$13,576	\$77,772	\$76,868	\$0	\$82,775	\$7,669
\$55,857	\$343,269	\$313,953	\$0	\$360,628	\$9,182
0	0	13,072	0	2,780	10,292
0	0	5,000	0	0	5,000
0	0	340	0	340	0
0	0	686	0	686	0
0	0	2,467	0	2,467	0
\$0	\$0	\$21,565	\$0	\$6,273	\$15,292
0	0	4,021	0	0	4,021
\$55,857	\$343,269	\$339,539	\$0	\$366,901	\$28,495

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	\$34,761
Bonus Commodities		N/A	4,526
Total Commodities			<u>\$39,287</u>
School Breakfast Program	10.553	N/A	33,048
National School Lunch Program	10.555	N/A	<u>166,133</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			<u>\$238,468</u>
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>			
Passed Through Huron Intermediate School District:			
Medical Assistance Program Title XIX	93.778	N/A	8,975
Passed Through Michigan Department of Education:			
Centers of Disease Control-Tech Assistance (04-05)	93.938	34400-SHI0305	<u>1,000</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>			<u>\$9,975</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$931,251</u></u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$34,761	\$0	\$34,761	\$0
0	0	4,526	0	4,526	0
\$0	\$0	\$39,287	\$0	\$39,287	\$0
0	0	33,048	0	33,048	0
0	0	166,133	0	166,133	0
\$0	\$0	\$238,468	\$0	\$238,468	\$0
0	0	8,975	0	8,975	0
0	0	1,000	0	1,000	0
\$0	\$0	\$9,975	\$0	\$9,975	\$0
\$55,857	\$343,269	\$587,982	\$0	\$615,344	\$28,495

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

\$587,982

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS

General Fund	\$349,514
School Service Fund	<u>238,468</u>
<u>TOTAL</u>	<u>\$587,982</u>

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$569,039
<u>Less:</u> State Funded Grants		
Driver Education	(\$3,153)	
School Breakfast Program	(5,077)	
Total State Funded Programs		(8,230)
<u>Less:</u> Timing Differences		
School Breakfast and Lunch Program Revenue Received in Subsequent Year		
<u>Add:</u> Grants Passed Through Huron Intermediate School District:		
Special Education - State Grants (CFDA 84.027)	\$6,273	
Medical Assistance Program Title XIX (CFDA 93.778)	8,975	
Total Grants Passed Through Huron Intermediate School District:		15,248
Grants Passed Through Tuscola Intermediate School District:		
Safe & Drug Free Schools & Communities - State Grants (CFDA 84.186)		0
Entitlement and Bonus Commodities (CFDA 10.550)		39,287
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u> <u>EXPENDITURES OF FEDERAL AWARDS</u>		<u>\$615,344</u>

BAD AXE PUBLIC SCHOOLS- BAD AXE, MICHIGAN
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.010
10.553/10.555

Name of Federal Program or Cluster
Title I Grants to Local Educational Agencies
Nutrition Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the current year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the current year.

BAD AXE PUBLIC SCHOOLS- BAD AXE, MICHIGAN
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

2004-1) Title I Grants to Local Educational Agencies; CFDA 84.010

<u>Specific Requirement:</u>	Allowable Cost/Cost Principles.
<u>Condition:</u>	The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.
<u>Criteria:</u>	The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".
<u>Effect of Condition:</u>	Salaries and wages charged to the program could be disallowed.
<u>Cause of Condition:</u>	The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.
<u>Recommendation:</u>	The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Status:</u>	The District has implemented a standard time certification form and the appropriate employee or other supervisory employee completes the certifications every six months.
<u>Questioned Cost:</u>	None.



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 27, 2005

To the Board of Education of
Bad Axe Public Schools

In planning and performing our audit of the financial statements of Bad Axe Public Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Bad Axe Public Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Bad Axe Public Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. The District should ensure that 1099's are issued to all vendors who are not incorporated to whom they have paid more than \$600 in a calendar year.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Bad Axe Public Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASBS No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



Bad Axe Public Schools

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- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Bad Axe Public Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS